

Town of Lunenburg

Financial Trends Monitoring Report



July 1, 2000 – June 30, 2009

November 2010

Kerry A. Speidel
Town Manager

INTRODUCTION

Purpose of the Lunenburg Financial Trend Monitoring Report (LFTMR)

The LFTMR allows a user to view in graph form the financial direction our town appears to be taking based upon key financial indicators. The report is designed to bring issues to the attention of decision makers, and to help see that overall trends are usually linked together. We also hope that having such information can give early warning of emerging problems and show that corrective measures that have been taken are achieving results. Other advantages of using the LFTMR including helping Town officials:

- Gain a better understanding of the Town's financial condition
- Identify emerging problems before they reach serious proportions
- Identify existing problems we might not be aware of
- Present a comprehensive picture of our strengths, weaknesses, instead of just focusing on one ratio
- Reinforce the need for long-range considerations during the annual budget process
- Provide a starting place for setting, reviewing and updating of financial policies that guide financial decision making.

What is a "Financial Condition?"

Broadly defined, financial condition refers to a local government's ability to finance its services on a continuing basis. Specifically, it is a town's ability to (1) maintain existing service levels, (2) withstand regional and local economic disruptions, and (3) meet the demands of natural growth, decline and change.

A town's financial condition depends on a number of factors. These include:

- Cash Solvency: the ability to generate enough cash over thirty- (30) to sixty- (60) days to pay its bills;
- Budgetary Solvency: the ability to generate enough revenues over a normal budgetary period to meet expenditures and not incur a deficit;
- Long-run Solvency: the ability over time to pay all the costs of doing business, including annual expenditures, as well as those that will appear only in the years in which they must be paid, such as pension costs, other retiree benefits and/ or debt service.
- Service-level Solvency: the ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that its residents desire.

Obstacles to Measuring Financial Condition

When a private company is determining whether it is financially sound, it examines its cash profit, which essentially translates into efficiency. Public entities, though they do strive to be efficient, have more than one goal. As they have no profit motive, they often measure success by assessing the "health and welfare" and "political satisfaction" of the community, and other qualities that are measured subjectively. Consequently, including the service-level solvency factor translates into less exact measurements of financial condition. Thus, municipal financial analysis is primarily concerned with cash and budgetary solvency in order to ascertain a more objective and more accurate picture of financial condition.

While a financial analysis can help a local government better understand its actual financial situation, there remains a lack of normative standards for the financial characteristics of a local government. With no clear definition of what constitutes a health per capita expenditure rate, what an adequate level of reserves looks like, and what an acceptable amount of debt is, municipal financial analysis is far from an exact science. This should perhaps come as no surprise given the different compositions of various communities in terms of size, geography, demographics, revenue structure, and responsibility or authority to provide services. Because of the uniqueness of each jurisdiction, most inter-jurisdictional comparisons have not gained authoritative acceptance.

A final major obstacle in measuring financial condition is municipal accounting practice, which is typically based on "audit-ability" and on tracking the dollars passing through government accounts, all the while placing much emphasis on legal compliance. Thus, fund accounting has been regarded as more important than program cost accounting and the measurement of long-term financial health. Furthermore, generally speaking, financial statements and budgets do not show in detail the costs of each service provided, nor do they show on an annual basis all costs that are being postponed to the future. They also do not always show the accumulation of unfunded pension liabilities or employee benefit liabilities, though this has changed somewhat with the implementation of GASB #45. Financial statements and budgets also do not show reductions in purchasing power caused by inflation or the decreasing flexibility in the use of funds that result from increasing state and federal mandates. And naturally, they do not show the erosion of streets, buildings and other fixed assets. Finally, these reports are prepared only for a one-year period and do not show in a multi-year perspective the emergency of favorable or unfavorable conditions.

Financial Trend Monitoring System

Evaluating a town's financial condition is a complex process that involves sorting through a number of factors. As such, this report should be viewed in its entirety, considering the individual indicators and trends represented by them as parts of a whole. No single indicator can present the complete picture. Each indicator should be considered in light of its causes and significance and evaluated in terms of other indicator trends. These indicators include, but are not limited to:

- The national economy;
- Actions of the state and local governments;
- Population level and composition of the community;
- The local business community; and/ or
- The internal finances of the local government.

Not only are there many indicators to evaluate, but many of them are also difficult to isolate and quantify. To help evaluate these numerous and diverse indicators, the Town of Lunenburg utilizes the analytic Financial Trends Monitoring System. As a management tool, this model brings together information from budgets and financial reports and combines it with economic and demographic information, thus creating a series of indicators which over time can be used to monitor changes in financial condition.

Sources of Analytic Model & Data

The LFTMR was created using the model presented in *Evaluating Financial Condition- A Handbook for Local Government* (ICMA, 1994). The model contains 36 indicators for measuring municipal financial condition; however, only twelve (12) have been developed as part of the

LFTMR. The others were omitted because either they are not applicable to Lunenburg's situation or because we do not have the data to be able to consistently develop the indicator at this time. We hope to be able to expand the indicators included in the report in the future, specifically those indicators which delve into debt service obligations and unfunded liabilities related to post-employment benefits.

Financial data was taken from the following sources:

1. Audited Financial Statements, prepared by an Independent Audit Firm as of June 30 each year;
2. Schedule A Annual Financial Report, filed with the Department of Revenue upon the close of the Fiscal Year; and
3. Budget Documents.

Trend Period & Indicators

The analysis covers the period of July 1, 2000 (FY2001) through June 30, 2009 (FY2009). It features twelve- (12) indicators: five- (5) revenue indicators; five- (5) expenditure indicators; and two- (2) operating position indicator.

Controlling for Inflation

Finally, since we are analyzing data over a period of a number of years, it is necessary to control for inflation. The generally accepted method for controlling for inflation is conversion to constant dollars by means of using the Consumer Price Index (CPI) as the inflation index. The CPI is a measure of the average change over time in the prices paid by urban consumers for goods and services. Several different series of the CPI are calculated and reported on a monthly basis. For the purposes of this model, we have used the CPI-U US City Average for the month of January. The CPI-U reflects spending patterns for All Urban Consumers. The CPI-U represents approximately 87% of the total United States Population.

Revenue Indicators

Revenues determine the capacity of a local government to provide service. Important issues to consider in revenue analysis are growth, flexibility, dependability, diversity, administration, and elasticity. Under ideal conditions, revenues would grow at a rate equal to or greater than the combined effects of inflation and expenditures. They would be sufficiently flexible (free from spending restrictions) to allow adjustments to changing conditions. They would be balanced between elastic and inelastic in relation to inflation and the economic base; that is, some would grow with inflation and the economic base and others would remain relatively constant. Revenue sources would be diversified- not overly dependent on residential, commercial, or industrial land uses, or on external funding sources, such as discretionary state aid. User fees would be regularly evaluated to cover cost increases.

Analyzing revenue structure will help to identify the following types of problems:

- Deterioration of the revenue base
- Practices or policies that may adversely affect revenue yields
- Poor revenue-estimating practices
- Inefficiency in the collection and administration of revenues

- Overdependence on obsolete or intergovernmental revenue sources
- User fees that are not covering the cost of services
- Changes in the tax burden on various segments of the population

This analysis may be used to provide the framework for the development of new, and update of existing fiscal policies to guide budget development. For the purposes of this analysis, we have reviewed the following indicators.

1. Revenue per Capita
2. Intergovernmental Revenues/ State Aid
3. Elastic Operating Revenues/ Local Receipts
4. Property Tax Revenue
5. Uncollected Property Taxes

Indicator 1: Revenues per Capita

Formula:

$$\frac{\text{Net Operating Revenues (constant dollars)}}{\text{Population}}$$

Lunenburg's Trend

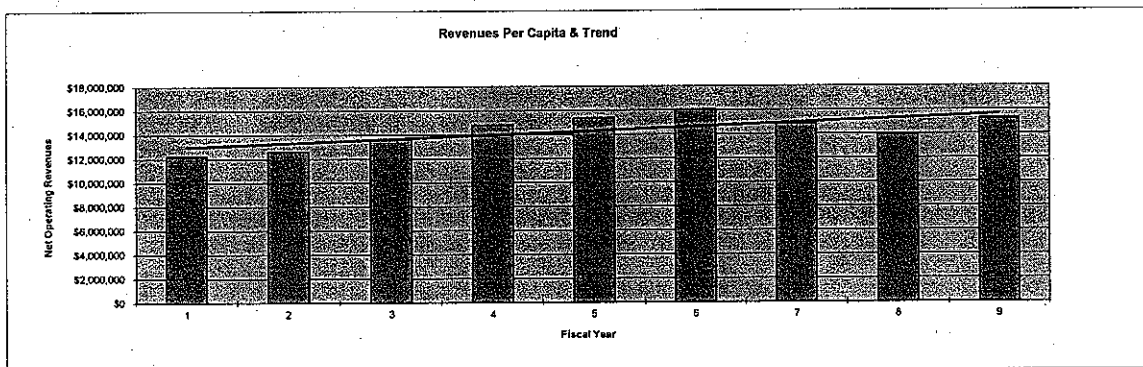
	Favorable
	Marginal
	Unfavorable
X	Uncertain

Warning Trend: Decreasing net operating revenues per capita (constant dollars)

Description: Examining per capita revenues shows changes in revenues relative to changes in population size and rate of inflation. As population increases, it might be expected that revenues and the need for services would increase proportionately and therefore that the level of per capita revenues would remain at least constant in real terms. If per capita revenues are decreasing, the government may be unable to maintain existing service levels unless it finds new revenue sources or ways to save money. This reasoning assumes that the cost of services is directly related to population size.

	2001	2002	2003	2004	2005	Fiscal Year 2006	2007	2008	2009
Net operating revenues	\$20,633,090	\$22,064,057	\$24,104,872	\$26,883,325	\$28,458,075	\$30,585,783	\$29,400,117	\$29,400,117	\$30,922,387
Consumer price index (CPI) for the municipality's area	168.8	175.1	177.1	181.7	185.2	190.7	198.3	211.1	202.4
CPI in decimal	1.69	1.75	1.77	1.82	1.85	1.91	1.98	2.11	2.02
Net operating revenues (constant dollars)	\$12,223,395	\$12,600,832	\$13,610,882	\$14,784,439	\$15,368,131	\$16,028,203	\$14,826,080	\$13,928,424	\$15,276,350
Population	9,365	9,405	9,650	9,518	9,554	9,706	9,948	9,948	9,948
Net operating revenues per capita (constant dollars)	\$1,305.22	\$1,339.80	\$1,410.45	\$1,553.31	\$1,608.35	\$1,651.37	\$1,490.36 (\$161.01)	\$1,400.12 (\$90.23)	\$1,535.62
		2.65%	5.27%	10.13%	3.54%	2.68%	-9.75%	-15.21%	3.04%

Analysis: Revenues per capita grew consistently per year up until FY2006. Revenues per capita in FY2007 decreased by 9.75%, or \$161.01, over FY2006. The decrease is a result of two- (2) factors, first FY2006 was the high point for Local Receipts, collections since then have fallen somewhat, and second, there was a rather large draw on Free Cash in FY2007 to fund Operations. Since Free Cash is a non-recurring revenue, it isn't included as part of Net Operating Revenues. There is some recovery in FY2009, and revenues were fairly strong in FY2010, given the state of the economy. Additional revenue sources should be sought to maintain a consistent level of per capita spending, assuming there are no major changes in services being provided.



Indicator 2: Intergovernmental Revenue (State Aid)

Lunenburg's Trend

Formula:

$$\frac{\text{Intergovernmental Operating Revenues}}{\text{Gross Operating Revenues}}$$

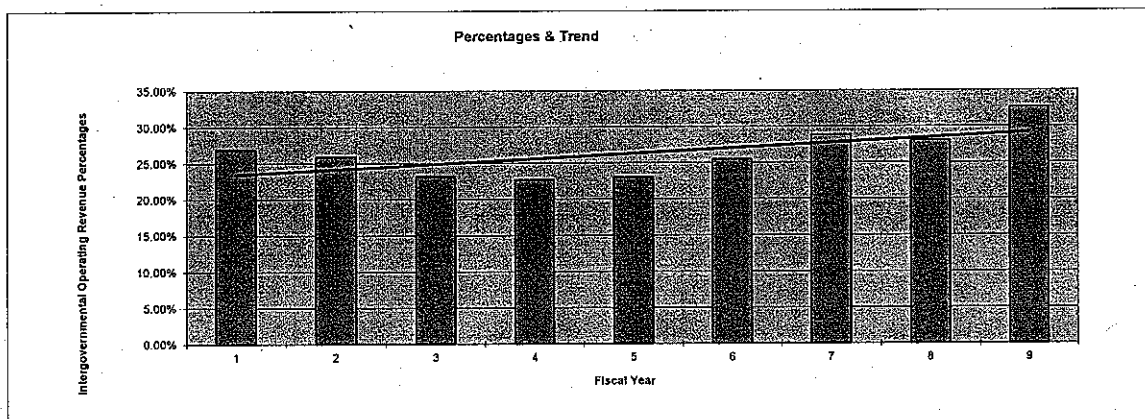
	Favorable
	Marginal
X	Unfavorable
	Uncertain

Warning Trend: Increasing amount of Intergovernmental Operating Revenues as a percentage of Gross Operating Revenues.

Description: Intergovernmental revenues are important because an overdependence on such revenues can be harmful. The primary concern in analyzing intergovernmental revenues is to know and monitor the Town's vulnerability to reductions in such revenues, and to determine whether the Town is controlling its use of this external revenue- or whether these revenues are controlling town policies. The potential for the Commonwealth to cut state aid requires the Town to carefully monitor these revenues, and to have contingency plans if state aid were reduced.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Intergovernmental operating revenues	\$5,552,693	\$5,724,062	\$5,594,670	\$6,304,731	\$6,761,719	\$8,031,819	\$8,890,109	\$9,019,875	\$9,017,481
State Aid		\$5,008,564	\$4,957,366	\$5,068,502	\$5,233,166	\$5,370,530	\$5,913,294	\$6,296,172	\$6,510,133
Gross operating revenues	\$20,633,090	\$22,064,057	\$24,104,872	\$27,753,798	\$29,348,548	\$31,456,256	\$30,827,086	\$32,151,867	\$27,654,319
Intergovernmental operating revenues as a percentage of gross operating revenues	26.91%	25.94%	23.21%	22.72%	23.04%	25.53%	28.84%	28.05%	32.61%
State Aid as a percentage of Gross Operating Revenues		22.70%	20.57%	18.26%	17.83%	17.07%	19.18%	19.58%	23.54%

Analysis: Cherry Sheet revenues from the State have consistently ranged from 17 - 20% of total operating funds. This is an area of concern as the Commonwealth began experiencing its own budgetary crisis beginning in 2001, which has continued to the present. The Town has been successful in budgeting conservatively for these revenues, which has been a key to preventing revenue shortfalls. The Town has also been able to maintain reserves sufficient to cover any mid-year reduction in State Aid. However, the Town can not continue using reserves and/ or one-time revenues to cover a permanent decrease in the amount of State Aid. The level of aid provided in FY2009 was atypical. The level of aid received in FY2010 and 2011 is closer to what was received in FY2007.



Indicator 3: Elastic Operating Revenue

Formula:

$$\frac{\text{Elastic Operating Revenues}}{\text{Gross Operating Revenues}}$$

Lunenburg's Trend

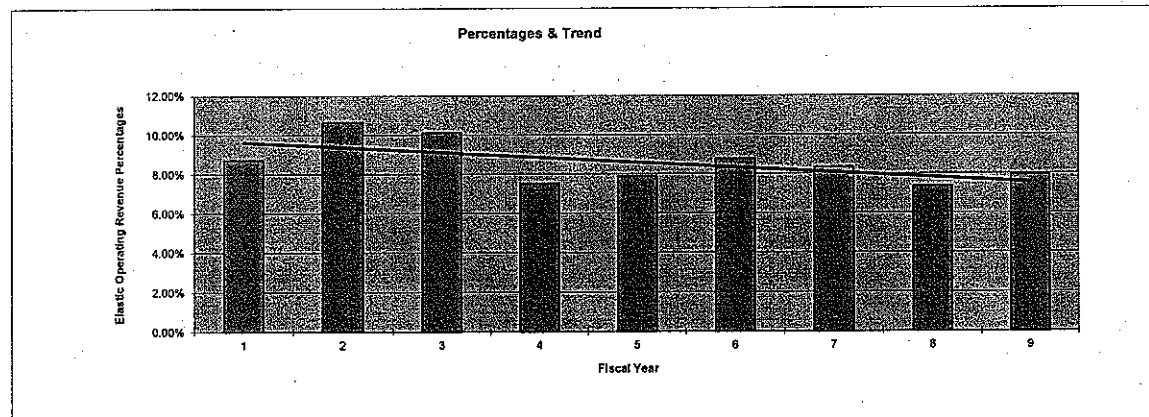
	Favorable
X	Marginal
	Unfavorable
	Uncertain

Warning Trend: Decreasing amount of elastic operating revenues as a percentage of net operating revenues.

Description: The yields of elastic revenues are highly responsive to changes in the economic base and inflation. As the economic base expands or inflation goes up, elastic revenues rise in roughly proportional or greater amounts and vice-versa. Good examples are Motor Vehicle Excise and Investment Income as they respond to changes in the economy. It is important to monitor these revenues carefully due to their potential impact on changes in the economy. It is important to monitor these revenues carefully due to their potential impact on total revenues. Similar to intergovernmental revenues, it is desirable to maximize these revenues, while having a contingency plan to replace the revenues if they fail to materialize as planned during a fiscal year.

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Elastic operating revenues	\$1,802,133	\$2,352,358	\$2,440,563	\$2,088,564	\$2,315,904	\$2,761,407	\$2,573,281	\$2,365,815	\$2,194,036
Gross operating revenues	\$20,633,090	\$22,064,057	\$24,104,872	\$27,753,798	\$29,348,548	\$31,456,256	\$30,827,086	\$32,151,867	\$27,654,319
Elastic Operating Revenues as a percentage of gross operating revenues	8.73%	10.66%	10.12%	7.53%	7.89%	8.78%	8.35%	7.36%	7.93%

Analysis: Elastic Revenues have been in a fairly consistent range during the analysis period, but have also been decreasing fairly steadily. The steady decline is a result of the flat and receding economy. Reviewing fees on a regular basis and raising them as needed to cover the cost of the service provided will help boost this revenue source.



Indicator 4: Property Tax Revenue

Formula:
Property Tax Revenues
 Constant Dollars

Lunenburg's Trend

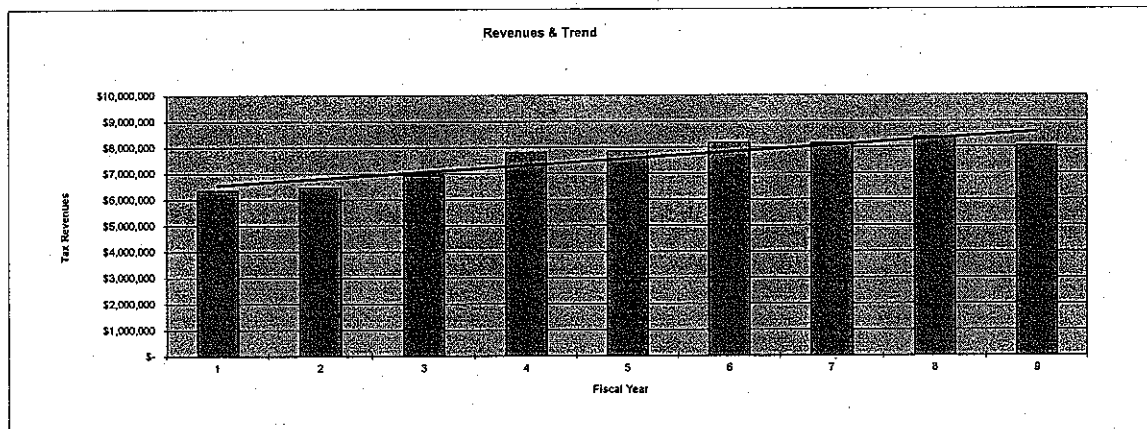
X	Favorable
	Marginal
	Unfavorable
	Uncertain

Warning Trend: Decline in property tax revenues in constant dollars.

Description: Property taxes should be considered separately from other revenues because most local governments rely heavily on them. A decline or a diminished growth rate in taxes can have a number of causes. First, it may reflect an overall decline in property values; a decline in local economic health; a decline in total number of households; or the movement of retail or industrial operations to other communities. Second, it may result from default on property taxes by property owners or an inefficient assessment process for property. Finally, a decline can be caused by deliberate default by property owners who choose to use the municipality as a lending institution.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Tax Revenues	\$10,707,351	\$11,314,268	\$12,248,172	\$14,187,120	\$14,541,607	\$15,573,501	\$16,177,531	\$16,952,582	\$16,952,582
Consumer price index (CPI) for local area	168.8	175.1	177.1	181.7	185.2	190.7	198.3	202.42	211.08
CPI in decimal	1.69	1.75	1.77	1.82	1.85	1.91	1.98	2.02	2.11
Tax revenues (constant dollars)	\$ 6,343,217	\$ 6,461,604	\$ 6,915,964	\$ 7,807,996	\$ 7,851,786	\$ 8,166,492	\$ 8,158,109	\$ 8,374,954	\$ 8,031,354

Analysis: Increases in property tax revenues during the period of analysis, even when adjusting for constant dollars, are steady and consistent. Though Proposition 2 ½ limits our ability to raise property taxes without voter approval; it also insures that our property tax revenues remain constant. Increases in excess of 2 ½% are a result of the need to raise additional tax dollars to make debt service payments on exempt bond issues or due to unusually high New Growth.



Indicator 5: Uncollected Property Taxes

Formula:

Uncollected Property Taxes as of June 30
Net Property Tax Levy

Lunenburg's Trend

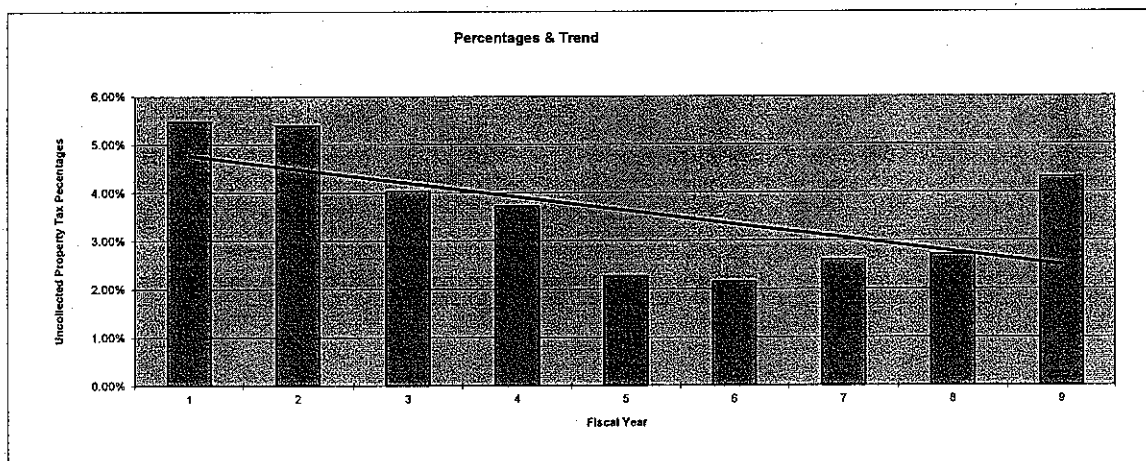
	Favorable
X	Marginal
	Unfavorable
	Uncertain

Warning Trend: Increasing amount of uncollected property taxes as a percentage of net property tax levy.

Description: Every year, a percentage of property owners are unable or unwilling to pay property taxes. If this percentage increases over time, it may indicate overall decline in the Town's economic health. Additionally, as uncollected property taxes rise, liquidity is decreased, and there is less cash on hand to pay bills or invest. This is an early warning indicator of concerns about the financial health of the taxpayers of the Town.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total property tax levy (gross)	\$10,768,585	\$11,538,850	\$12,133,212	\$14,147,393	\$14,727,659	\$15,766,349	\$16,177,531	\$16,952,582	\$16,915,184
Abatelements of property taxes levied	\$70,353	\$98,448	\$69,640	\$86,579	\$92,283	\$79,369	\$112,880	\$111,909	\$111,909
Net property tax levy	\$10,698,232	\$11,440,404	\$12,063,572	\$14,060,814	\$14,635,376	\$15,686,980	\$16,064,651	\$16,840,673	\$16,803,275
Uncollected property taxes	\$585,575	\$618,446	\$487,265	\$523,864	\$332,215	\$337,809	\$417,943	\$457,568	\$726,071
Uncollected property taxes as a percentage of net property tax levy	5.47%	5.39%	4.04%	3.73%	2.27%	2.15%	2.60%	2.72%	4.32%

Analysis: This is a critical indicator to monitor for many reasons. The credit rating industry assumes that a municipality in good financial health will be able to collect 98% of its property taxes [current taxes, i.e. not necessarily Tax Title] within the year that the taxes are due. If uncollected property taxes grow to more than 5%, that is considered a negative factor because it signals potential instability in the property tax base. An increase in the rate of delinquency for two consecutive years is also considered a negative factor. Prior to FY06, Lunenburg collected about 99% of property taxes due by June 30 of each fiscal year. Collections in the first 90 days of FY10, for FY09 taxes, were strong- \$290,873. If you consider these late collections, the net uncollected property tax levy would be reduced to 2.59%.



Expenditure Indicators

Expenditures are a rough measure of a local government's service output. Generally, the more a local government spends in constant dollars, the more services it is providing, although this axiom does not take into account how effective the services are or how efficiently they are delivered. To determine whether a government is living within its revenues, the first issue to consider is expenditure growth rate.

Because local governments are required to have a balanced budget, it would seem unlikely that expenditure growth would exceed revenue growth. Nevertheless, the annual budget can be balanced in a number of subtle ways that will create a long-run imbalance in which expenditure outlays and commitments grow faster than revenues. Some of the more common ways are to use non-recurring revenues (one-time monies), to borrow (pay for operating capital through long term capital improvement plan), or make use of reserve funds (Stabilization) to fund Operational Expenses. Other ways are to defer maintenance on capital items or to defer funding of a future liability, such as a pension obligation or other retiree benefits. In each case, the annual budget remains balanced, but the long-run budget develops a deficit. Although long-run deficits might, conceivably, be made up through windfalls such as additional State Aid, grants, or other revenue surges created by inflation, allowing such deficits to develop is risky.

A second issue to consider is expenditure flexibility. Expenditure flexibility is a measure of a local government's freedom to adjust its service levels to changing conditions, and considers the level of mandatory or fixed costs. Ideally, a government's expenditure growth rate will not exceed its revenue growth rate, and the government will have maximum flexibility to adjust spending. An increase in mandatory costs, such as debt service, employee benefits, and property and other insurances, renders a government less able to adjust to change.

For the purpose of this analysis, we have reviewed the following indicators.

1. Expenditures per Capita
2. Other Operational Expenditures
3. Education Expenditures
4. Employee Benefits Expenditures
5. Debt Service Expenditures

Indicator 7: Expenditures per Capita

Formula:

$$\frac{\text{Net Operating Expenditures (constant \$)}}{\text{Population}}$$

Lunenburg's Trend

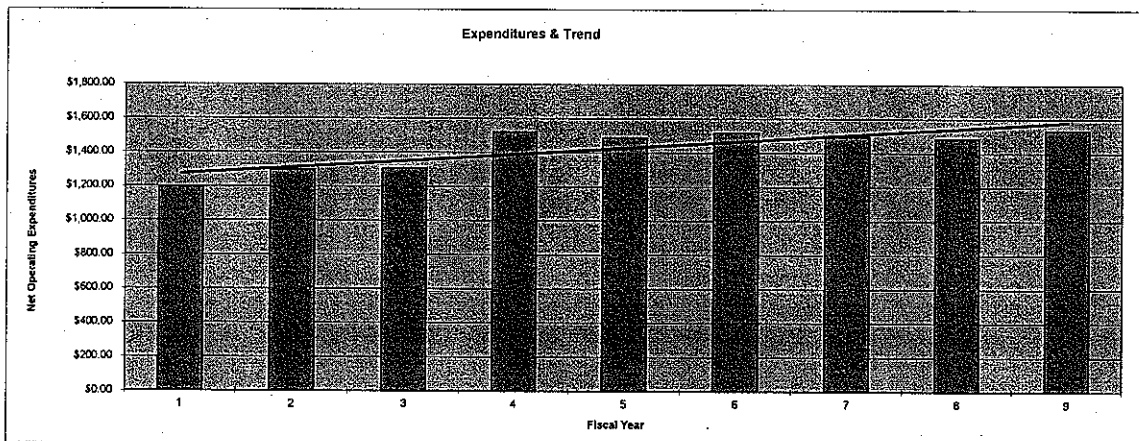
	Favorable
	Marginal
	Unfavorable
X	Uncertain

Warning Trend: Increasing net operating expenditures per capita in constant dollars.

Description: Changes in per capital expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures can indicate that the cost of providing services is outstripping the community's ability to pay, especially if spending is increasing faster than the residents' collective personal income. From a different perspective, if the increase in spending is greater than can be accounted for by inflation or the addition of new services, it may indicate declining productivity- that is, that the government is spending more real dollars to support the same level of services. Or it may indicate that the demographics of the community are changing requiring increased spending in related services.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net operating expenditures	\$19,629,384	\$21,577,918	\$22,904,955	\$26,796,305	\$27,124,241	\$29,248,220	\$30,112,456	\$31,171,677	\$32,236,112
Consumer price index (CPI) for the municipality's area	175.1	177.1	181.7	185.2	190.7	198.3	202.4	211.1	211.1
CPI in decimal	1.75	1.77	1.82	1.85	1.91	1.98	2.02	2.11	2.11
Net operating expenditures in CPI base-year dollars	\$11,210,385	\$12,184,030	\$12,605,919	\$14,468,847	\$14,223,514	\$14,749,481	\$14,876,226	\$14,767,708	\$15,267,431
Population	9,365	9,405	9,850	9,518	9,554	9,706	9,948	9,948	9,948
Net operating expenditures per capita (constant dollars)	\$1,197.05	\$1,295.48	\$1,306.31	\$1,520.16	\$1,488.75	\$1,519.63	\$1,495.40	\$1,484.49	\$1,534.72

Analysis: Spending per capita has remained remarkably constant during this analysis period. On the surface, this would indicate a favorable trend; however, consideration needs to be given to whether this constant level is due to increased efficiencies in service levels or a reduction in service levels, or both. If levels of service have been cut, was this done intentionally or by necessity?



Indicator 8: Other Operational Expenditures

Formula:

$$\frac{\text{Other Operational Expenditures}}{\text{Total Net Operating Expenditures}}$$

Lunenburg's Trend

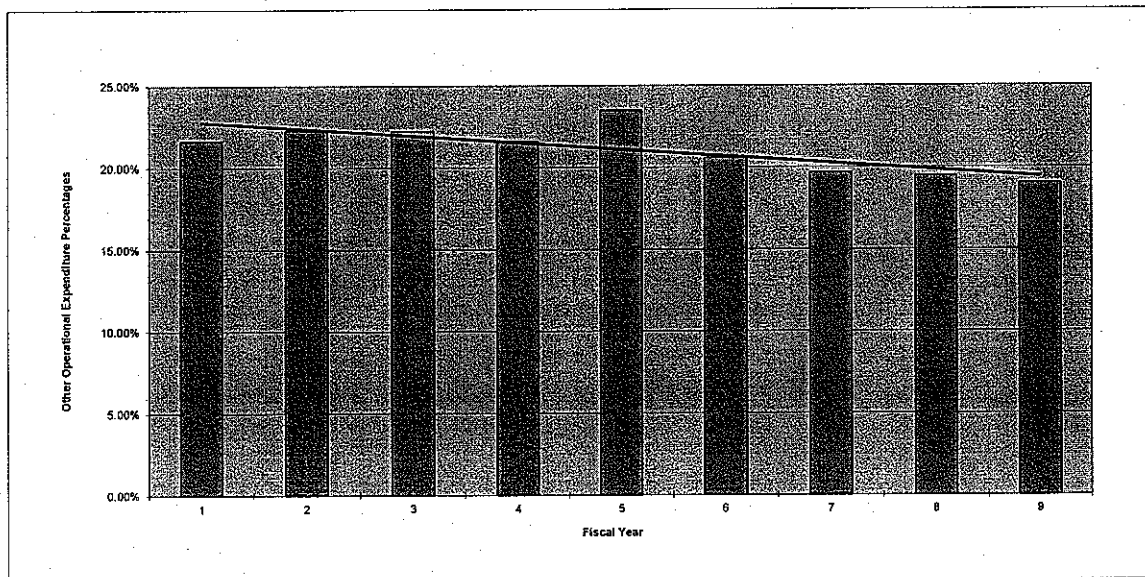
	Favorable
	Marginal
	Unfavorable
X	Uncertain

Warning Trend: Increasing Other Operational expenditures as a percentage of total net operating expenditures.

Description: Expenditure by function shows a more detailed breakdown of a local government's general governmental fund expenditures. Use of this indicator helps to further analyze, or further develop, the expenditures per capita indicator, by helping to analyze the cause of the increases in governmental spending over time. The rating agency, Standard & Poor's, reviews expenditure composition and stability in the context of revenue patterns, i.e. instability in spending per function may result in a lowering of the Town's credit rating.

	2001	2002	2003	2004	2005	Fiscal Year 2006	2007	2008	2009
Other Operational expenditures	4,246,942	4,804,920	5,088,907	5,790,545	6,366,266	6,016,854	5,927,157	6,066,811	6,129,039
Total net operating expenditures	19,629,384	21,577,918	22,904,955	26,796,305	27,124,241	29,248,220	30,112,456	31,171,677	32,236,112
Other Operational expenditures as a percentage of total net operating expenditures	21.64%	22.27%	22.22%	21.61%	23.47%	20.57%	19.68%	19.46%	19.01%

Analysis: During the analysis period, total Other Operational spending remained fairly consistent, though a decrease was noted. On the surface, this would indicate a favorable trend; however, consideration needs to be given to whether the decrease is due to increased efficiencies in service levels or a reduction in service levels, or both. If levels of service have been cut, was this done intentionally or by necessity? Therefore, we have identified this indicator as uncertain.



Indicator 9: Education Expenditures

Formula:

$$\frac{\text{Education Expenditures}}{\text{Total Net Operating Expenditures}}$$

Lunenburg's Trend

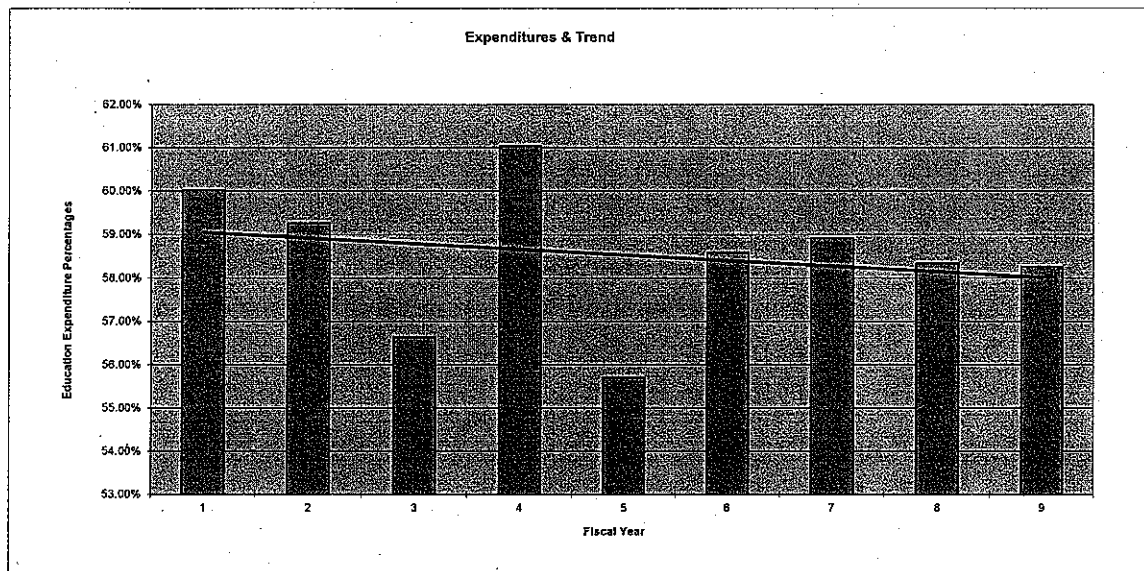
	Favorable
	Marginal
	Unfavorable
X	Uncertain

Warning Trend: Increasing Education expenditures as a percentage of total net operating expenditures.

Description: Expenditure by function shows a more detailed breakdown of a local government's general governmental fund expenditures. Use of this indicator helps to further analyze, or further develop, the expenditures per capita indicator, by helping to analyze the cause of the increases in governmental spending over time. The rating agency, Standard & Poor's, reviews expenditure composition and stability in the context of revenue patterns, i.e. instability in spending per function may result in a lowering of the Town's credit rating.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Education expenditures	11,782,821	12,787,961	12,973,601	16,357,631	15,110,825	17,136,454	17,742,583	18,185,622	18,781,327
Total net operating expenditures	19,629,384	21,577,918	22,904,955	26,796,305	27,124,241	29,248,220	30,112,456	31,171,677	32,236,112
Education expenditures as a percentage of total net operating expenditures:	60.03%	59.26%	56.64%	61.04%	55.71%	58.59%	58.92%	58.34%	58.26%

Analysis: During the analysis period, total Education spending remained fairly consistent. On the surface, this would indicate a favorable trend; however, consideration needs to be given to whether this is due to increased efficiencies in service levels or a reduction in service levels, or both. If levels of service have been cut, was this done intentionally or by necessity?



Indicator 10: Employee Benefits Expenditures

Lunenburg's Trend

Formula:

$$\frac{\text{Employee Expenditures}}{\text{Total Net Operating Expenditures}}$$

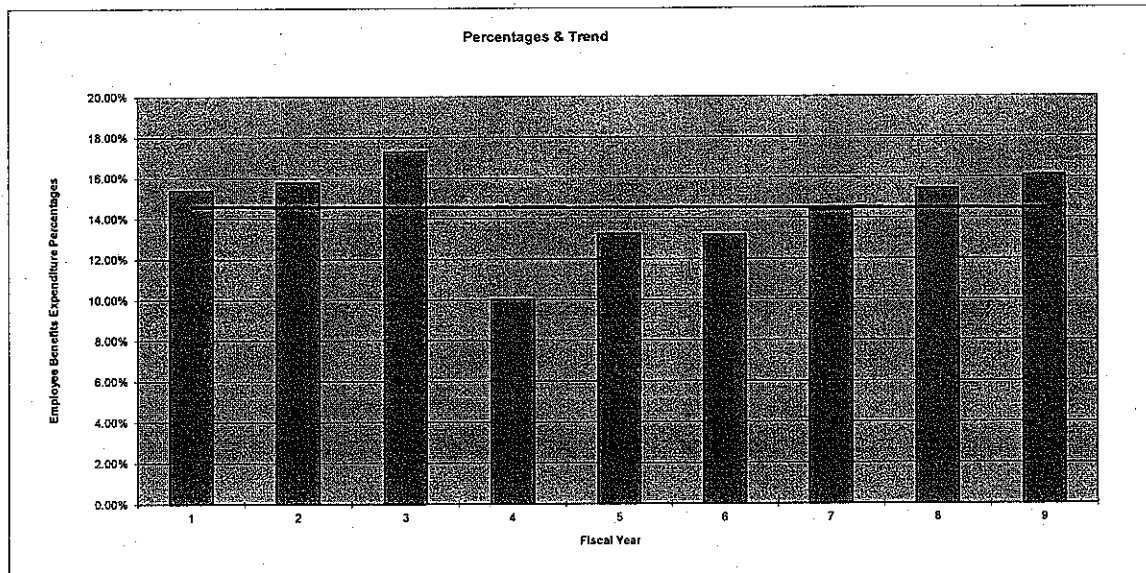
	Favorable
	Marginal
X	Unfavorable
	Uncertain

Warning Trend: Increasing Employee Benefits expenditures as a percentage of total net operating expenditures.

Description: Expenditure by function shows a more detailed breakdown of a local government's general governmental fund expenditures. Use of this indicator helps to further analyze, or further develop, the expenditures per capita indicator, by helping to analyze the cause of the increases in governmental spending over time. The rating agency, Standard & Poor's, reviews expenditure composition and stability in the context of revenue patterns, i.e. instability in spending per function may result in a lowering of the Town's credit rating.

	Fiscal Year								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Employee Benefits expenditures	3,023,236	3,405,267	3,952,641	2,690,269	3,589,447	3,858,910	4,330,376	4,811,316	5,193,448
Total net operating expenditures	19,629,384	21,577,918	22,904,955	26,795,305	27,124,241	29,248,220	30,112,456	31,171,677	32,236,112
Employee Benefits expenditures as a percentage of total net operating expenditures:	15.40%	15.78%	17.30%	10.04%	13.23%	13.19%	14.38%	15.43%	16.11%

Analysis: The steady increase is a cause for concern. Recently, the Town has taken steps to contain costs, such as the adoption of Section 18. Containing the cost of providing employee benefits must remain one of the most pressing fiscal issues. [**The reported expense in FY2004 needs to be researched further as it appears inconsistent with the remainder of the data.]



Operating Position Indicators

The term "operating position" refers to a local government's ability to (a) balance its budget on a current basis, (b) maintain reserves for emergencies, and (c) have sufficient liquidity to pay its bills on time.

Balancing the current budget

During a typical year, a local government generates either an operating surplus or an operating deficit. An operating surplus develops when current revenues exceed current expenditures, and operating deficit when the reverse occurs. In rare instances, revenues and expenditures balance exactly. An operating surplus or deficit may be created intentionally, by a policy decision, or unintentionally, because of the difficulty of precisely predicting revenues and expenditures or trends in the underlying local and national economies. Deficits are usually funded from unreserved fund balances; surpluses are usually used to increase fund balances.

Reserves

The accumulation of operating surpluses builds reserves, which provide a financial cushion against the loss of a revenue source; an economic downturn; unanticipated expenditures required by natural disasters, insurance loss, and the like; unexpected large-scale capital expenditures or other non-recurring expenses; an uneven cash flow; and similar events.

Reserves may be budgeted in a contingency account or carried as a part of one or more fund balances. If they are carried as an un-appropriated part of a fund balance (i.e. free cash), they may never appear in a local government's budget or be discussed during budget deliberations.

Liquidity

Liquidity refers to the flow of cash in and out of the treasury. Local governments often receive their revenues in large installments at infrequent intervals during the year. If revenues are received before they need to be spent, the government will have a positive liquidity or cash flow position. Excess Liquidity or "cash reserves" are a valuable cushion against unexpected financial pressures. If a government has a negative cash flow and no cash reserves, it must borrow on short-term notes or put off paying its bills.

An analysis of operating position can help to identify the following situations:

- A pattern of continuing operating deficits
- A decline in reserves
- A decline in liquidity
- Ineffective revenue forecasting techniques
- Ineffective budgetary controls

For the purposes of this analysis, we reviewed the following indicator.

1. Fund Balance
2. Long-Term Debt as a Percentage of Assessed Valuation

Indicator 11: Fund Balance

Formula:

$$\frac{\text{Unreserved Fund Balance}}{\text{Total Net Operating Revenues}}$$

Lunenburg's Trend

	Favorable
	Marginal
X	Unfavorable
	Uncertain

Warning Trend: Declining Unreserved Fund Balance as a percentage of operating revenues.

Description: (Operating Position Indicator) Positive fund balances can also be thought of as reserves, although the "fund balance" entry on a local government's audit is not always synonymous with "available for appropriation." The size of the Town's fund balances can affect its ability to withstand financial emergencies. It can also affect its ability to accumulate funds for capital purchases without having to borrow (operating capital expenditures). Nonspecific or general reserves are carried on the books as an unreserved fund balance in the General Fund. An unplanned decline in fund balances may mean that the Town will be unable to meet a future need.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Actual Revenues	\$17,404,340	\$18,650,614	\$20,108,540	\$21,195,250	\$21,782,817	\$24,584,833	\$24,509,781	\$24,807,639	\$25,875,174
Budgeted Revenues	\$16,847,518	\$18,567,250	\$19,271,057	\$21,392,485	\$21,544,139	\$22,870,621	\$24,146,113	\$24,771,919	\$26,044,448
Revenue Surplus as a percentage of Actual Revenue	3.31%	0.46%	4.35%	-0.92%	1.11%	7.50%	1.51%	0.14%	-0.65%

Analysis: Credit rating agencies recommend that a local government maintain between 5 - 10% in Reserves. At the present time, the Town is able to maintain approximately 5% of Operating Expenses in the Stabilization Account. Positive Fund Balance at the end of the fiscal year is one way to increase total reserves. For the most part, during the period of this analysis, Fund Balance has decreased. The reason for the decrease is fairly evident on the most basic level- actual revenues coming in closer to budgeted revenues and actual expenditures coming in closer to appropriations. Careful attention must be paid to maintaining Unreserved Fund Balance at recommended levels.

Indicator 12: Long-Term Debt per Assessed Valuation

Formula:

$$\frac{\text{Debt Service Expenditures}}{\text{Total Net Operating Expenditures}}$$

Lunenburg's Trend

X	Favorable
	Marginal
	Unfavorable
X	Uncertain

Warning Trend: Increasing Debt Service expenditures as a percentage of total Assessed Valuation.

Description: The operating expenditures of every government are composed in part of mandatory and fixed expenditures over which officials have little short-run control. These include expenditures to which the government is legally committed, such as debt service. The higher the level of fixed expenditures, the less freedom local officials have to adjust spending in response to economic changes. Fixed costs become especially important during periods of financial retrenchment, since mandatory expenditures such as debt service are usually unaffected by a reduction in service levels.

	2001	2002	2003	2004	2005	Fiscal Year 2006	2007	2008	2009
Assessed valuation	\$675,146,400	\$739,669,900	\$924,787,500	\$996,295,300	\$1,104,022,400	\$1,270,455,200	\$1,285,947,900	\$1,322,671,840	\$1,297,176,664
Net direct bonded long-term debt	\$3,278,570	\$5,037,933	\$22,121,018	\$27,690,350	\$27,560,422	\$26,280,759	\$25,066,049	\$23,182,500	\$24,031,464
Net direct bonded long-term debt as a percentage of assessed valuation	0.49%	0.68%	2.39%	2.78%	2.50%	2.07%	1.95%	1.75%	1.85%

Analysis: Total debt service, as a percentage of Assessed Valuation, during the period of analysis has consistently decreased. The decrease is due to a pay down of debt service. On the surface, this would indicate a favorable trend; however, consideration needs to be given to whether or not capital needs are being addressed in a responsible manner.